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THIS IS UNEVALUATED INFORMATION

1. Establishment and purpose. The Handelsorganisation (HO) runs a chain of state-owned stores and restaurants selling scarce goods unrationed but at high prices. The establishment of the organization was pushed by the SMA early in 1948, but it was fought by the DTK, the SED, and the FDGB. Finally on 22 October 1948, Heinrich Nau, president of the DTK, delegated General Ernst Günther Burmeister to set up the new organization, and the SMA instructed the various ministries for trade and procurement to place stores and restaurants at the disposal of the HO by application of the claims ordinance (Anforderungsverordnung) analogous to the power-of-state laws (Reichsleistungsgesetz). The compensation provided for in the claims ordinance was paid by the HO without any court action. Compensation was made "within the law", that is, the approximate value, on which payment was based, was determined by pre-war standards without concern for new prices or for business loss.

25X12. [] the primary purpose of the HO is to extend socialization to the commercial sphere. For this reason, the HO is a permanent organization, which should in time absorb all privately-owned commercial firms. The eventual incorporation of the consumer cooperatives into the HO is also being discussed in the SBA and in the Central Secretariat of the SED. Secondary purposes of the HO are as follows: to make possible the eventual elimination of rationing as prices for HO goods gradually drop and demand for them accordingly increases; by means of its high prices to absorb the surplus money (Geldüberflusse) in the Soviet Zone; by its price policy to force down black market prices.

3. Administration. According to the statute of the HO, confirmed by the DSK secretariat and published in the DSK gazette of 7 December 1948, the HO consists of an Executive Committee (Verwaltungsrat) and a Business Administration (Geschäftsführung).

a. Executive Committee

Chairman	Mrs. Greta Kuckhoff, member of the DWK secretariat
Deputy	Paul Ganther-Gillmanns (CDU), chairman of the DWK's Main Administration for Trade and Procurement

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Representatives from various DWT offices:

Main Administration for Finance: Willi Rumpf and Dr. Steiner, both
of whom play an important role in the Executive Committee
Main Administration for the Food Industry
Main Administration for Internal and Foreign Trade
Main Administration for Economic Planning
Main Administration for Light Industry

Deputies from:

FDGB (Soviet Zone trade union organization)
DFB (Women's League)
FDJ (youth organization)

Representatives from the various Länder:

Marohn (Earl Maron ?), Berlin Magistrat
Dr. Schaumann (sic), Ministerial-Direktor in Brandenburg
Wolf, Ministerial-Direktor in Saxony-Anhalt
Gauhl (Gaul or Gaul ?), Ministerial-Direktor in Mecklenburg
Dr. Georg Knabe (CDU), Minister in Saxony
An Oberregierungsrat from Thuringia

b. The Business Administration

Chairman: Paul Baender, * 15 April 1949 -
Hermann Streit, * 1 January - 15 April 1949
Ernst-Günther Burmeister, * 22 October - 31 December 1948

Director of Purchase

and Sale of Industries:

Commodities: /rno Specht, 1 January 1949 -

Deputy: Gen. Hartwig *

Director of Purchase and

Sale of Food and

Restaurants:

Gen. Schlör, * 1 January 1949 -

(In October 1949, expected to be relieved in
the near future because of incompetency)

Deputy: Schöne, who actually runs this department

Director of the Secretariat
and the Organization

Department:

Dr. Raphael, * 15 April 1949 -

Ernst-Günther Burmeister, * 1 January - 15 April 1949

Chief of Personnel: Seiffert *

Deputy: Mrs. Liders *

Chief of Control

Sections:

Gen. Helmut Franke (SED)

(Actually this section is run by Dr. Raphael, Director of the Secretariat and the Organization Department.)

Finance Director: Huneck *

Chief of Planning

/ection:

Schultze *

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c. Branch Offices of the HO

Berlin: Director: Gen. Marchus*
 2nd Business Establishments Director: Gen. Niessch *

Brandenburg: Director: Gen. Dr. Stammler, * who will take office after
 Burmeister resigns

Saxony-Anhalt: Director: Gen. Ahrens *

Thuringia: Director: Gen. Adam Doetsch *
 Deputy: Mr. Christiansen *

Saxony: Director: Heinz Siegert *

Mecklenburg: Director: Gen. Hess *
 Deputy: Mertens *

4. Although the HO is incorporated under public law, which gives the DWK final authority over the HO, actually all decisions of any significance are made by the SMA. Through its local SMA's, the SMA has built up an information service on all HO problems, so that very often Karlshorst is informed more quickly and more completely concerning events in HO stores and restaurants than the HO administration itself in the DWK. This results in frequent clashes between Karlshorst and the DWK and the HO central office.

Local SMA officers who direct the HO:

Berlin	Lt. Col. Gubich
Brandenburg	Maj. Narmov
Saxony-Anhalt	Capt. Rabinski
Mecklenburg	Lt. Col. Lykov

Karlshorst officials concerned with HO affairs:

Two SMA departments, which vie with one another for authority over HO:
 Finance Department, which usually has the decisive authority: Malatin, Sitnin, and Kobrin.
 Trade Department: Drofa, Shumlin, and Soloveit

Churmachov, SMA deputy economic advisor and
 Kovalk, economic advisor, who are over the two above-mentioned departments.

5. The HO is also unofficially directed by the SED Central Secretariat, principally by Walter Ulbricht, and under him the head of the Economics Division, Willi Stoph, and the director of the Trade Division, Kurt Wolf. The SED also exercises control through the HO's Personnel Section and its Control Section, both of which are manned as far as possible with SED members. The Control Section, whose members are chosen for their political leanings rather than their professional competence, has in several cases made accusations which were later exposed as unauthorized in orderly court procedure, but only a partial restitution was given to the parties concerned since such cases were looked upon as a defeat for the SED. The methods of the Control Division have led to a general feeling of insecurity among all of the 25,000 HO employees. In the Personnel Section, not only does the private HO information service check every candidate for any kind of position very closely as to his political leanings, but the numerous personal records of every candidate for a position about the level of salesgirl or cleaning woman are forwarded to the PPA (Politischer Prüfungsausschuss -- Political Examination Committee) of the appropriate SED Landvorstand, who has final authority.

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difficulty is that the Russians have always demanded a higher price from the German public than was proposed by the German stores, which have been more aware of the actual situation. When in March and April 1949 there was a sharp drop in sales because of the fact that the excess buying power (Kaufkraftüberhang) had already been skimmed off, the German agencies proposed a drop in HO prices of 40 - 50 percent, but the price drop authorized by the SMA on 13 May amounted to an average of only 20 percent. When this price lowering proved insufficient, the SMA ordered another price drop on 11 July 1949, and after this the HO price level amounted to about 55 percent of the prices demanded when the HO opened its first stores and restaurants on 15 November 1949. In the second half of September the sale of manufactured goods had slowed down because of the unfounded opinion that the HO might drop its prices in the immediate future. This rumor was based on the promise made at the time of the establishment of the HO that within a year and a half HO prices would be gradually dropped until they reached the level fixed for rationed goods, but lack of merchandise makes the fulfillment of this promise impossible.

11. Sales plan. The sales figures to be reached by the HO are predetermined by plan, made by the DWK's Main Administration for Finance and approved by the SMA. The original plan envisaged a sales turn-over of 3.6 billion (Millionen) DM for 1949, but in the first quarter of 1949 it was proven that this figure could not be reached because of the impossibility of putting on sale goods of corresponding selling value. Accordingly, in March 1949 the sales goal for 1949 was reduced to 2.4 billion for the year or 200 million per month. By the end of September 1949, the plan for the first three quarters had been fulfilled 111.5 percent. The percentage of the goal assigned to each Land and the percentage of fulfillment by each Land is as follows:

	Share of total HO turn-over	Percentage of Land's goal fulfilled	Manufactured goods	Food	Restaurants
Berlin	20 %	98.2 %	77.3 %	115.8 %	96.7 %
Brandenburg	12 %	102.4 %	76.5 %	110.3 %	118.0 %
Mecklenburg	10 %	108.7 %	74.5 %	113.1 %	116.8 %
Saxony-					
Anhalt	18 %	108.0 %	77.3 %	113.7 %	116.1 %
Saxony	28 %	130.7 %	80.5 %	207.5 %	93.2 %
Thuringia	12 %	109.0 %	70.7 %	117.8 %	107.7 %
Zone total	100 %	111.5 %	76.7 %	119.6 %	104.8 %

Every salesgirl and waitress in an HO establishment has a goal set for her, and if her individual sales efficiency over a two month period does not meet this obligation, she is dismissed for incompetency. On the other hand bonuses are paid for sales above the goal in restaurants, and it is planned to inaugurate the same system in the stores.

12. Finance plan. The HO conducts its business with its own capital of 150 million DM-east, placed at its disposal by the Deutsche Notenbank at the instance of the DWK. This amount is allotted exclusively for salable goods (Warenumsatz) and defraying overhead expenses. Over and above this, the HO has received a loan of approximately 100 million DM-east from the Deutsche Investitionsbank for investments. This loan must be paid back to the bank with 15 percent annual (alljährlich) interest.

13. Every day the HO stores and restaurants must deposit their total daily proceeds to a special account in their local bank, which in turn turns over this money to the Länder Emissions- und Girobanken. There the money is

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In the SED Central Secretariat, control over HO personnel matters is exercised by Kling and Ratmann of the PPA. General Schwarz, chief of the PPA, is top authority in Potsdam.

6. Commodity procurement. HO procurement plans for industrial commodities must be drawn up quarterly by Schmuick, main division director in the DWK'S Main Administration for Trade and Procurement. These plans must then be approved by the SMA, to whom the HO must also report every two weeks on its current fulfillment of the quotas set. Since, however, up until autumn 1949 the DWK has not been able to include the HO in its industrial production plans for the Soviet Zone, it has not been possible to fulfill the HO procurement plans by actual commodity purchase. The HO has been able to obtain some unsold merchandise from the export companies, but this consisted largely of low-quality goods dumped on the HO at exorbitant prices. During the first three quarters of 1949, the HO was able to purchase only 40 percent of the goods assigned to it on paper for this period. Included in this figure are many low-quality goods which the HO bought because of the pressure of the fulfillment reports required by the Russians. Accordingly, a very large amount of unsalable merchandise remains in the HO stores, and in October 1949 it had not been determined in what manner this merchandise could be sold. This consists largely of inferior-quality textile goods and household merchandise.
7. In the middle of September the DWK presented a plan to offer this unsalable inferior merchandise to the still remaining private businesses, which have had no further allotment of goods for at least two years and have been attempting to exist on the sale of cheap merchandise. The DWK expects that the private merchants will make considerable use of this opportunity to acquire goods, although the intention is to deliver the merchandise at about double the normal selling price. Since most of the private firms do not have the funds to make purchases of this kind, the DWK is prepared to direct the Lender Emissions- und Girobanken to give credit at substantially easier terms to private businesses for these purchases. The DWK calculates that because of the high cost of these goods to the merchant the prices which private business must demand for these goods will be restrictive despite the fact that the goods can be sold without ration points. Accordingly, it is expected that the private firms will not be able to fulfill their credit obligations, and an excuse will thus be provided for the government to confiscate them.
8. The food required by HO stores and restaurants is derived chiefly from the increase in the German harvest. Luxuries such as coffee, chocolate, cocoa, etc. almost always have come from stocks confiscated by the Russian or German agencies and delivered exclusively to the HO. Recently the HO also acquired the large luxury store in Pirna, previously used by the Yugoslavian Military Commission for its extensive blackmarket activities legalized by the Russians until the difficulties arose between Yugoslavia and the USSR. The shortage of food items in the regular stores in the Soviet Zone is such that the HO has no difficulty selling its groceries despite the high prices demanded.
9. In the fall of 1949, the HO had to change over to importing from western Germany all high-quality shoes and modern-styled women's clothes. Since Soviet Zone production of both these items remained so low that hardly any goods were to be obtained from this source, and at the same time the rise of this business in the west could not be concealed, the SMA ordered the purchasing of a certain amount of this high-quality west German merchandise to give the people of the Soviet Zone the illusion that these desired articles were also on sale from Soviet Zone production.
10. Prices. In every case, final approval for prices must be received from the SMA Finance Department. The inelasticity of prices resulting from this procedure has led to the loss of about 500,000 DM worth of merchandise, particularly perishable food which could not be sold by lowering prices. Another

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divided up every ten days by the HO branch offices. Up to 23 May 1949, the date of the first general fall in prices, 65 percent of the receipts was taken as a so-called "budget" "impost" (Haushaltaufschlag) and deposited to account 10019 in the Deutsche Notenbank Berlin; up to 10 July 1949, the time of the second general fall in HO prices, 75 percent of the receipts went to this account; and since 11 July 63 percent has been so deposited. This "budget" "impost" goes in part to the Russians as reparations payment and in part to the DMK for general government purposes and for the support of the non-profitable VEBs (state-owned plants). The HO is expected to cover its expenses from the remaining 37 percent.

14. The first balance of the HO for the period from 15 November to 31 December 1948 showed in a sales turn-over of 120 million DM, at a loss of approximately 2 million DM. The second balance for the period from 1 January to 23 May 1949 was being made out in October 1949, and it was expected to show a loss of from 3.5 million to 4 million DM. At a conference in September 1949, finance director Huneck estimated the probable loss for the period 24 May to 30 September at another 3 million DM. Thus apart from (unabhängig von) the excises turned over to the DMK, the HO should have suffered a total loss of about 9 million DM during the first ten months of its existence.
15. HO establishments. On 31 December 1948, 35 stores and 22 restaurants were under HO management. By the end of September 1949, the HO was selling its merchandise in 700 of its own permanent establishments. Besides stores and restaurants, it manages lunch stands, coffee and pastry shops, and special shops for textile goods, groceries, and fruit and vegetables. In addition to the aforementioned 700 permanent establishments, the HO has about 400 kiosks and an untold number of tobacco shops and moveable booths.
16. The Deutsche Investitionsbank has promised the HO funds to enable it to increase its store network 50 percent. Furthermore, negotiations are underway between Kukschov and the HO central organization to turn over to the HO on 1 January 1950 the management of the Russian UNIVERMAG which up until now has run stores for members of the Soviet occupation forces. In these stores, textiles, manufactured products, groceries, and luxury items, usually the same merchandise as the HO is selling, are being sold now to occupation personnel at the official HO prices. As a token of friendship between the Soviet Zone and the Russian occupying power, these stores and the HO are to be amalgamated on 1 January 1950 for use by both Germans and Russians.

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